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Reduce cash handling with POS debit cards. (point-of-sale debit cards)

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Wouldn't it be great if you no longer had to handle checks, cash or credit card receipts? No more late-night or early-morning runs to the night deposit drop. No more counting, recounting and sorting bills, no more bounced checks or credit card disputes. Sound like a dream? If you implement debit card transactions in your store, you would be able to significantly reduce such inefficient activities.

A debit card is a bank-issued card that allows a consumer to make a purchase and have the funds withdrawn directly from his or her bank account. Debit cards originally surfaced in New England in the late 1960s with little fanfare and remained essentially dormant for more than a decade, until they began to show up in the early '80s as ATM cards, which primarily allow bank customers to access their accounts around-the-clock for withdrawals, deposits and account inquiries via an automated teller machine.

Over the past decade, petroleum/convenience stores and supermarkets began accepting debit cards, and Visa and MasterCard instituted their own national debit cards--Interlink and Maestro, respectively. And consumers have become increasingly accepting of debit cards.

Off-line vs. on-line

There are two types of debit card transactions: off-line and on-line.

An off-line transaction is similar to a credit card purchase. The consumer tenders a debit card to make a purchase. The merchant runs the card through a credit card terminal and receives authorization. A receipt is generated for the customer to sign. The merchant includes the merchant copy in with the bank deposit and receives credit in two to five days. Any store set up to accept credit cards can accept off-line debit transactions.

An on-line debit transaction is quite different. The merchant must purchase a POS terminal with a device for entering the PIN (Personal Identification Number). The consumer presents the debit card and inputs his or her PIN. The account is immediately checked for sufficient funds. If the funds are not in the account, the transaction is rejected. If the money is available, the funds are electronically transferred to the store's bank account either immediately or at the end of the business day.

It is the on-line transaction that is attracting interest. "The market is definitely moving toward on-line," noted MasterCard manager of public relations Elizabeth Sullivan. "Merchants are coming on line more and more."

Retailer benefits

Accepting debit cards offers a retailer several advantages:

* Customers are likely to spend more with a debit card than with cash. Walgreen, a national drugstore chain, recently installed POS terminals in 23 locations in Albuquerque, N.M., and early results reveal the

average ticket size for direct debit transactions to be nearly double the average ticket for cash purchases.

- * A merchant's potential customer base is expanded. As more banks issue ATM/debit cards tied into national networks, such as Interlink and Maestro, the number of cardholders will grow. If you install POS terminals, you will put yourself at a competitive advantage in the eyes of consumers who prefer to use debit cards.

- * The merchant's cost is reduced. Whereas credit card charges are assessed by most banks on a percentage-of-purchase basis (usually about 2% of the ticket), debit card charges are collected on a per-transaction basis. Under the current rate structure of electronic transfer systems such as Honor and Cirrus, the merchant pays a fee of 3[cts] per transaction, and the participating bank pays a fee of 3[cts]. In December, merchants will begin to pay an additional interchange fee of 6[cts].

Even with the additional fee, in most cases, the video business owner would pay less to process an on-line debit card transaction. For example, on a purchase of \$30, the merchant would pay the bank a 2% fee, or 60[cts]. For an on-line debit card, however, the store owner would pay a total of 9[cts].

- * Because the POS terminals require the entry of a PIN, there is far less risk of fraud than with credit cards and checks.

- * On-line transactions provide immediate credit to the merchant's account, enhancing cash flow. MasterCard VP of Maestro acceptance Carl Stefanelli points out, "You have the opportunity to stop taking bad checks. Debit card transactions don't bounce, and they don't charge back."

- * The merchant is considerably less likely to get "stuck" in a dispute with a consumer.

- * Bank fees decrease as transaction costs are lowered.

- * Paperwork is reduced because transactions are electronic.

- * The store's security risk is diminished because there is less cash on hand and in the bank deposit.

Why consumers like debit cards

When debit cards were first introduced, consumers were quite reluctant to use them. They were afraid that use of such cards might lead to funds' being diverted from personal checking accounts. They also seemed to like the "float" provided by credit card use.

Now, though, consumers are more comfortable with the security of the system, and credit card companies have become much less generous with float. Also, there is a general tendency toward lower personal credit after the deluge of personal bankruptcies in the early 1990s.

Consumers are turning to debit card use with increasing frequency and are finding several advantages:

- * They can carry less cash.

- * The debit cards are very convenient.

- * There is less chance of fraud than with credit cards or checks, especially with POS transactions requiring PINs.

- * There is less paper to keep up with than there is with checks.
- * They allow the consumer to use checking account funds in establishments (such as many restaurants) that do not accept checks.

Nikki Waters, a senior VP with Star Systems Inc., the largest shared regional electronic funds transfer in the country, believes debit card demand will continue to increase in retail establishments. "Because [using ATM cards] is a replacement for checks and cash, gasoline stations and supermarkets were natural beginning markets for it," Waters recently told Bank Management magazine. "Once customers became acquainted with paying with the ATM card, they started seeking [this ability] at retail locations."

Explosive growth

Given the advantages for both retailer and consumer, it's not surprising that debit card use is increasing. Consider these statistics:

- * According to Bank Network News, in 1993, there were 60 billion checking account transactions and 32.2 million direct debit card transactions per month.
- * According to POS News, installations of on-line debit terminal jumped 65%, from 94,163 in 1992 to 155,000 in 1993.
- * BankAmerica, the nation's largest debit processor, reported 6.4 million debit card transactions at 61,000 terminals in 1993, up from 3.9 million transactions at 21,900 terminals in 1992.

Bank Network News projects that there will be 450 million direct debit transactions per month by the year 2000. It also predicts that 50% of all personal deposit accounts will be linked to Visa Debit and Interlink cards by the end of 1994.

The outlook for debit cards

The average transaction time has been reduced to 6 to 10 seconds, from about 30 seconds a couple years ago. And the POS terminals have dropped dramatically in price from around \$1,000 in 1990 to about \$300 today.

Bank Management magazine recently reported on the trend toward more-affordable terminals. "Terminals are almost becoming a throwaway item for merchants to buy," said John Beahn, general manager of Melton Bank's Network Services division, a transaction processor. "More merchants can afford the devices, or banks are just giving the terminals to retailers."

The fast-food industry offers a good example. According to POS News, there were 4,477 fast-food restaurants with on-line POS terminals in June 1993. And Burger King has begun a pilot program in 18 corporate-owned outlets in Kansas City. Other major retailers with pilot programs under way include Kmart and True Value.

Setting up for on-line use

Adding POS direct debit capability to your store is quite simple. You buy a terminal (or terminals) from your bank and install it. The terminal is linked to the on-line network through a telephone line.

To process a direct debit transaction, you have the patron run his or her card through the terminal and input

a PIN. Once the request is approved, the transaction is completed.

If you own a chain of video stores in different areas of the country, it becomes a little more complicated because of the regional network exchange. But it can still be done.

Contact your bank if you are interested in setting up on-line POS debit terminals. The bank will help you get set up and will provide information on the regional electronic networks.

The next thing, Stefanelli points out, is to let your customers know that you accept debit cards. "Consumers will assume that you take credit cards, but they don't know if you accept Honor or Maestro. If you put up decals just like you do to communicate credit card acceptance, you will probably see a lot more debit card use in your store."

PRODUCT PROMOTION

BASF will refund up to \$2.99 on the purchase of AA batteries and of BASF extralength videocassettes: the eight-hour T-160 EQ or the 6 1/2-hour T-130 EQ. The consumer buys the batteries and any combination of four cassettes and then sends their UPC symbols and cash register receipts (dated Sept. 1, 1994, through April 30, 1995) to BASF's redemption center.

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